

CHARTER TOWNSHIP OF MUNDY
GENESEE COUNTY, MICHIGAN
REPORT ON
AUDITED FINANCIAL STATEMENTS
December 31, 2006



Certified Public Accountants

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Mundy	County Genesee
Fiscal Year End 12/31/06	Opinion Date 6/6/07	Date Audit Report Submitted to State 6/30/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

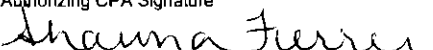
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Taylor & Morgan, CPA, PC		Telephone Number 810-230-8200	
Street Address G-2302 Stonebridge Dr., Bldg. D		City Flint	State MI
Authorizing CPA Signature 		Printed Name Shawna M. Ferry	License Number 1101026482

CHARTER TOWNSHIP OF MUNDY

Genesee County, Michigan

Financial Statements

And

Auditor's Report

December 31, 2006

TOWNSHIP OFFICIALS

KAREN L. BOND

SUPERVISOR

RICK W. FROST

CLERK

DAVID L. GUIGEAR

TREASURER

KAREN E. GAWRON

TRUSTEE

TONYA L. KETZLER

TRUSTEE

ROBERT E. NEUMANN

TRUSTEE

JOE OSKEY

TRUSTEE

CHARTER TOWNSHIP OF MUNDY
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Certified Public Accountants

Independent Auditor's Report

June 6, 2007

Members of the Board
Charter Township of Mundy
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2007, on our consideration of Charter Township of Mundy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Mundy's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in cursive script that reads "Taylor & Morgan, P.C.".

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Township of Mundy Management's Discussion and Analysis

This section of the Charter Township of Mundy's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended December 31, 2006. Please read it in conjunction with the Township's financial statements, which follow this section.

Financial Highlights

- The Township's Total Net Assets are \$23.5 million. Unrestricted net assets are \$12.5 million.
- During the year, the Township's governmental expenditures were \$261,932 greater than the \$5,258,705 generated in taxes and other revenues for governmental programs. This was mainly due to a lawsuit that was settled in 2007, but accrued as a payable at December 31, 2006.
- General fund expenditures exceeded final budgeted amounts by \$57,847. General fund revenues exceeded final budgeted amounts by \$679,794.

Overview of the Financial Statements

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide statements.
 - ❖ The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - ❖ Proprietary fund statements offer short and long-term financial information about the water and sewer system that the government operates like a business.
 - ❖ Fiduciary fund statements provide information about the financial relationships where the Township acts as agent, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Charter Township of Mundy Management's Discussion and Analysis

Table 1 summarizes the major features of the Township's financial statements, including the portion of the Township government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of Charter Township of Mundy's
Government-wide and Fund Financial Statements**

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Township government (except fiduciary funds)	The activities of the Township that are not proprietary or fiduciary, such as police, fire, and parks	Activities the Township operates similar to private businesses: the water and sewer system	Instances in which the Township is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	Agency funds statement of assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the Township's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	Increases and decreases to assets and liabilities

Charter Township of Mundy Management's Discussion and Analysis

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets—the difference between the Township's assets and liabilities—is one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and condition of the Township's roads.

The government-wide financial statements of the Township are divided into two categories:

- Governmental activities—Most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, franchise fee, state revenue sharing, and investment earnings finance most of these activities.
- Business-type activities—The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer system is the only business-type activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds—not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

- Governmental funds—Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass that additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements. The Township has one governmental fund, the General Fund.

Charter Township of Mundy Management's Discussion and Analysis

- Proprietary funds—Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Township has only one proprietary fund, the Water and Sewer Fund.
- In fact, the Township's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- Fiduciary funds—The Township is the fiduciary, for assets held on behalf of others. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate agency fund balance sheet. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

Financial Analysis of the Township as a Whole

Net assets

The Township's governmental activities net assets are \$7.7 million. The unrestricted governmental activities net assets are \$3.9 million. Business-type net assets are \$15.8 million with \$7.2 million being invested in capital assets net of related debt.

Governmental Activities

The Township's General Fund revenues were \$5.3 million this year. Property taxes were \$2.4 million or 45.2% of the total revenues. Federal grants and State revenue sharing made up \$.9 million or 17.1% of the total revenue. The remaining 37.7% of General Fund revenues are comprised mostly of miscellaneous revenues, charges for services and interest revenue.

The Township does not have any long-term or bonded debt related to governmental activities.

Business-Type Activities

Operating revenues of the Township's business-type activities increased \$414,861 from the prior year of \$1,937,725 to the current year total of \$2,352,586. Operating expenses increased by \$154,961.

**Charter Township of Mundy
Management's Discussion and Analysis**

Charter Township of Mundy's Net Assets (Thousands)

	<u>Government Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 7,784	\$ 7,902	\$ 8,974	\$ 7,945	\$ 16,758	\$ 15,847
Capital assets	<u>3,655</u>	<u>3,773</u>	<u>7,418</u>	<u>7,768</u>	<u>11,073</u>	<u>11,541</u>
Total assets	<u>11,439</u>	<u>11,675</u>	<u>16,392</u>	<u>15,713</u>	<u>27,831</u>	<u>27,388</u>
Other liabilities	3,703	3,006	385	266	4,088	3,272
Long-term liabilities	<u>-</u>	<u>-</u>	<u>206</u>	<u>239</u>	<u>206</u>	<u>239</u>
Total liabilities	<u>3,703</u>	<u>3,006</u>	<u>591</u>	<u>505</u>	<u>4,294</u>	<u>3,511</u>
Net assets:						
Invested in capital assets, net of related debt	3,655	3,773	7,212	7,529	10,867	11,302
Restricted	200	692	-	-	200	692
Unrestricted	<u>3,881</u>	<u>4,204</u>	<u>8,589</u>	<u>7,679</u>	<u>12,470</u>	<u>11,883</u>
Total net assets	<u>\$ 7,736</u>	<u>\$ 8,669</u>	<u>\$ 15,801</u>	<u>\$ 15,208</u>	<u>\$ 23,537</u>	<u>\$ 23,877</u>

Charter Township of Mundy Management's Discussion and Analysis

Charter Township of Mundy's Changes in Net Assets (Thousands)

	<u>Government Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,436	\$ 1,292	\$ 2,352	\$ 1,938	\$ 3,788	\$ 3,230
Operating grants and contributions	5	14	-	-	5	14
Capital grants and contributions	69	-	-	588	69	588
General revenues:						
Property taxes	2,382	2,032	-	-	2,382	2,032
State shared revenue	886	895	-	-	886	895
Other	<u>480</u>	<u>304</u>	<u>360</u>	<u>168</u>	<u>840</u>	<u>472</u>
Total revenues	<u>5,258</u>	<u>4,537</u>	<u>2,712</u>	<u>2,694</u>	<u>7,970</u>	<u>7,231</u>
Expenses:						
General government	1,783	2,124	-	-	1,783	2,124
Public safety	2,751	2,922	-	-	2,751	2,922
Public service	1,103	1,107	-	-	1,103	1,107
Water and sewer	<u>-</u>	<u>-</u>	<u>2,119</u>	<u>1,964</u>	<u>2,119</u>	<u>1,964</u>
Total expenses	<u>5,637</u>	<u>6,153</u>	<u>2,119</u>	<u>1,964</u>	<u>7,756</u>	<u>8,117</u>
Increase (decrease) in net assets before transfers	(379)	(1,616)	593	730	214	(886)
Transfers	<u>-</u>	<u>(217)</u>	<u>-</u>	<u>217</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(379)	(1,833)	593	947	214	(886)
Beginning net assets	<u>8,115</u>	<u>9,948</u>	<u>15,208</u>	<u>14,261</u>	<u>23,323</u>	<u>24,209</u>
Ending net assets	<u>\$ 7,736</u>	<u>\$ 8,115</u>	<u>\$ 15,801</u>	<u>\$ 15,208</u>	<u>\$ 23,537</u>	<u>\$ 23,323</u>

Financial Analysis of the Township's Funds

As the Township completed the year, its General Fund reported a balance of \$4.1 million. This was a decrease of \$.3 million from the prior year.

Charter Township of Mundy **Management's Discussion and Analysis**

Capital Assets

At the end of 2006, the Township had invested \$10.9 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB Statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having townships gather together all of the required information, GASB has allowed smaller units of government like Charter Township of Mundy to report infrastructure assets on a prospective basis after adopting the new reporting standard.

Charter Township of Mundy Capital Assets (thousands - net of depreciation)

	Government Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 382	\$ 382	\$ -	\$ -	\$ 382	\$ 382
Buildings	2,840	2,768	-	-	2,840	2,768
Machinery and equipment	357	543	-	-	357	543
Infrastructure	<u>76</u>	<u>80</u>	<u>7,418</u>	<u>8,117</u>	<u>7,494</u>	<u>8,197</u>
Total	<u>\$ 3,655</u>	<u>\$ 3,773</u>	<u>\$ 7,418</u>	<u>\$ 8,117</u>	<u>\$ 11,073</u>	<u>\$ 11,890</u>

Long-term Debt

At the end of the current fiscal year, Charter Township of Mundy had total debt outstanding of \$205,879. The balance at December 31, 2005 was \$238,929. The debt consists solely of construction advance liabilities for monies advanced by developers for construction of water and sewer lines.

Limitations on Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. The Township does not have any debt subject to the limitation at December 31, 2006.

Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Charter Township of Mundy Clerk's Department.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF MUNDY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,689,422	\$ 8,075,556	\$ 11,764,978
Investments	102,233	101,758	203,991
Inventory	2,324	-	2,324
Receivables:			
Taxes	1,351,522	-	1,351,522
Special assessments	287,066	148,733	435,799
Accounts	217,042	177,093	394,135
Unbilled utility service income	-	435,983	435,983
Prepaid expenses	376,057	-	376,057
Due from other funds	1,435,817	35,234	1,471,051
Due from other governments	322,317	-	322,317
Nondepreciable capital assets	382,236	-	382,236
Depreciable capital assets, net	3,273,152	7,417,841	10,690,993
Total assets	11,439,188	16,392,198	27,831,386
Liabilities			
Accounts payable	71,246	8,400	79,646
Accrued liabilities	169,356	-	169,356
Loss contingency	509,447	-	509,447
Deferred revenue	2,953,538	-	2,953,538
Due to other funds	-	33,362	33,362
Due to other governments	-	343,807	343,807
Noncurrent liabilities-construction advances:			
Due in more than one year	-	205,879	205,879
Total liabilities	3,703,587	591,448	4,295,035
Net Assets			
Invested in capital assets, net of related debt	3,655,388	7,211,962	10,867,350
Restricted for:			
Metro Act	37,291	-	37,291
Building department	162,142	-	162,142
Unrestricted	3,880,780	8,588,788	12,469,568
Total net assets	\$ 7,735,601	\$ 15,800,750	\$ 23,536,351

**CHARTER TOWNSHIP OF MUNDY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants	Governmental Activities	Business-type Activities	Totals
Functions/Programs							
Primary government							
Governmental activities:							
General government	\$ 1,783,456	\$ 540,200	\$ -	\$ -	\$ (1,243,256)	\$ -	\$ (1,243,256)
Public safety	2,751,103	285,140	4,516	15,000	(2,446,447)	-	(2,446,447)
Public service	1,103,739	611,480	-	53,993	(438,266)	-	(438,266)
Total governmental activities	5,638,298	1,436,820	4,516	68,993	(4,127,969)	-	(4,127,969)
Business-type activities:							
Sewer and water	2,119,255	2,352,586	-	-	-	233,331	233,331
Total business-type activities	2,119,255	2,352,586	-	-	-	233,331	233,331
Total primary government	\$ 7,757,553	\$ 3,789,406	\$ 4,516	\$ 68,993	(4,127,969)	233,331	(3,894,638)
General revenues							
Property taxes					2,382,117	-	2,382,117
State shared revenue					885,837	-	885,837
Unrestricted investment earnings					263,596	359,668	623,264
Franchise fees and other					216,826	-	216,826
Total general revenues					3,748,376	359,668	4,108,044
Change in net assets					(379,593)	592,999	213,406
Net assets (deficit), beginning of year, restated					8,115,194	15,207,751	23,322,945
Net assets (deficit), end of year					7,735,601	15,800,750	23,536,351

**CHARTER TOWNSHIP OF MUNDY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Total Governmental Funds</u>
Assets		
Cash and cash equivalents	\$ 3,689,422	\$ 3,689,422
Investments	102,233	102,233
Inventory	2,324	2,324
Receivables:		
Taxes	1,351,522	1,351,522
Special assessments	287,066	287,066
Accounts	217,042	217,042
Prepaid expenses	376,057	376,057
Due from other funds	1,435,817	1,435,817
Due from other governments	<u>322,317</u>	<u>322,317</u>
Total assets	<u>\$ 7,783,800</u>	<u>\$ 7,783,800</u>
Liabilities and fund balances		
Liabilities		
Accounts payable	\$ 71,246	\$ 71,246
Accrued liabilities	169,356	169,356
Loss contingency	509,447	509,447
Deferred revenue	<u>2,953,538</u>	<u>2,953,538</u>
Total liabilities	3,703,587	3,703,587
Fund balances		
Reserved for prepaids	376,057	376,057
Reserved for building department	162,142	162,142
Reserved for Metro Act	37,291	37,291
Reserved for drug forfeiture funds	26,853	26,853
Unreserved, undesignated	<u>3,477,870</u>	<u>3,477,870</u>
Total fund balances	<u>4,080,213</u>	<u>4,080,213</u>
Total liabilities and fund balances	<u>\$ 7,783,800</u>	<u>\$ 7,783,800</u>

**CHARTER TOWNSHIP OF MUNDY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Total Governmental Fund Balances		\$	4,080,213
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Cost of net assets	\$	8,178,710	
Accumulated depreciation		<u>(4,523,322)</u>	<u>3,655,388</u>
Total net assets - governmental activities	\$		<u><u>7,735,601</u></u>

CHARTER TOWNSHIP OF MUNDY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Total Governmental Funds</u>
Revenues		
Taxes	\$ 2,382,117	\$ 2,382,117
Licenses, permits and fees	654,340	654,340
Intergovernmental:		
Federal	53,993	53,993
State	900,837	900,837
Fines and forfeitures	70,609	70,609
Charges for services	828,604	828,604
Interest	263,596	263,596
Other revenue	<u>104,609</u>	<u>104,609</u>
Total revenues	5,258,705	5,258,705
Expenditures		
General government:		
Township hall	1,199,827	1,199,827
Tax account	356,229	356,229
Other general government	124,689	124,689
Public safety:		
Building department	133,785	133,785
Police department	2,061,018	2,061,018
Fire department	545,812	545,812
Public service	<u>1,099,277</u>	<u>1,099,277</u>
Total expenditures	<u>5,520,637</u>	<u>5,520,637</u>
Excess (deficiency) of revenues over (under) expenditures	(261,932)	(261,932)
Net change in fund balances	(261,932)	(261,932)
Fund balance - beginning of year, restated	<u>4,342,145</u>	<u>4,342,145</u>
Fund balance - end of year	\$ <u><u>4,080,213</u></u>	\$ <u><u>4,080,213</u></u>

CHARTER TOWNSHIP OF MUNDY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Total net change in fund balances - governmental funds	\$	(261,932)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	\$	284,797	
Depreciation Expense		<u>(402,458)</u>	<u>(117,661)</u>
Change in net assets of governmental activities	\$		<u><u>(379,593)</u></u>

**CHARTER TOWNSHIP OF MUNDY
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITIES
SEWER AND WATER ENTERPRISE FUND
DECEMBER 31, 2006**

Current assets	
Cash and cash equivalents	\$ 8,075,556
Investments	101,758
Receivables:	
Accounts	177,093
Special assessment	148,733
Unbilled utility service revenue	435,983
Due from other funds	<u>35,234</u>
Total current assets	8,974,357
Noncurrent assets	
Property & equipment - net	<u>7,417,841</u>
Total assets	<u>16,392,198</u>
Current liabilities	
Accounts payable	8,400
Due to other governments	343,807
Due to other funds	<u>33,362</u>
Total current liabilities	385,569
Long-term liabilities	
Construction advances	<u>205,879</u>
Total liabilities	<u>591,448</u>
Net assets	
Invested in capital assets, net of related debt	7,211,962
Unrestricted net assets	<u>8,588,788</u>
Total net assets	<u>\$ 15,800,750</u>

CHARTER TOWNSHIP OF MUNDY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
SEWER AND WATER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating revenues	
Charges for services	\$ 2,316,051
Late charges	33,730
Inspection and contractors' fees	<u>2,805</u>
Total operating revenues	2,352,586
Operating expenses	
Salaries and wages	44,491
Payroll taxes	3,508
Depreciation	349,693
Maintenance and repair	184,567
Sewer treatment charges	860,844
Water purchases	642,574
Miscellaneous	23,258
Billing service charges	<u>10,320</u>
Total operating expenses	<u>2,119,255</u>
Operating income/(loss)	233,331
Non-operating revenues (expenses)	
Interest on investment	358,433
Interest on tap-in fees	<u>1,235</u>
Total non-operating revenues/(expenses)	<u>359,668</u>
Net income (loss)	592,999
Net assets - beginning of year	<u>15,207,751</u>
Net assets - end of year	\$ <u><u>15,800,750</u></u>

**CHARTER TOWNSHIP OF MUNDY
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
SEWER AND WATER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

Cash flows from operating activities	
Receipts from customers	\$ 2,311,886
Payments to employees	(32,259)
Payments to suppliers	<u>(1,651,651)</u>
Net cash provided (used) by operating activities	<u>627,976</u>
Cash flows from capital and related financing activities	
Payment on contractor advances	(33,050)
Payments received on special assessment	<u>29,042</u>
Net cash provided (used) by capital and related financing activities	(4,008)
Cash flows from investing activities	
Interest earned on investments	345,311
Interest on tap-ins	<u>1,235</u>
Net cash provided (used) by investing activities	<u>346,546</u>
Net increase (decrease) in cash and cash equivalents	970,514
Cash and cash equivalents - beginning of year	<u>7,105,042</u>
Cash and cash equivalents - end of year	<u><u>\$ 8,075,556</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 233,331
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	349,693
Decrease (increase) in assets:	
Accounts receivable	(370)
Due from other funds	(31,538)
Increase (decrease) in liabilities:	
Accounts payable	534
Due to other governmental units	85,118
Due to other funds	<u>(8,792)</u>
Net cash provided by operating activities	<u><u>\$ 627,976</u></u>

**CHARTER TOWNSHIP OF MUNDY
FIDUCIARY FUND
TAX COLLECTION AGENCY FUND
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2006**

Assets

Cash and cash equivalents	\$ <u>3,949,503</u>
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Liabilities

Due to other governments	\$ 2,511,814
Due to other funds	<u>1,437,689</u>

Total liabilities	\$ <u>3,949,503</u>
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NOTES TO FINANCIAL STATEMENTS

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Charter Township of Mundy, Michigan (Township), became a Charter Township April 1, 1978. The Township provides the following services as authorized by law: public safety (police and fire), highways and streets, sanitation, public improvements, planning and zoning, and general administrative services.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable. The Township does not have any component units at December 31, 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary funds:

- The Sewer and Water Fund accounts for the activities of the Township's sewage pumping and collection system and water distribution system.

Additionally, the Township reports the following fiduciary fund:

Agency Funds – The Agency Funds are used to account for assets held for other governments in an agency capacity, including tax collections. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Agency funds are not included in the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Property taxes are reported as general revenues rather than as program revenues.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the sewer and water enterprise funds relate to charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap in fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property tax revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. However, the revenues generated by the tax levy cannot be appropriated until the budget year following the levy date. The asset created by the levy on December 1 is recorded in the appropriate fund as current taxes receivable. In addition, a deferred revenue offset account is recorded recognizing that the taxes receivable and cash collected before year end on the December 1 roll are not available for current appropriation. Tax collections made from December 1 through December 31 in the current tax agency fund and not distributed prior to year end are recorded as due to other governments. These monies are subsequently distributed to the appropriate governments in the ensuing budget year. Revenues generated by the levy of a 1% property tax administrative fee are recognized on a cash basis in the General Fund.

The Township is permitted by charter to levy up to \$5 (5 mills) per \$1,000 of state equalized value for general governmental services. For the year ended December 31, 2006, the Township levied 4.564 mills per \$1,000 of taxable value for general operations. The Township is permitted to levy unlimited amounts for payment of existing general long-term debt obligations.

Taxable and assessed values at December 31, 2006 are as follows:

	<u>Assessed Value</u>	<u>Taxable Value</u>
Real Property	\$ 632,165,300	\$ 502,544,517
Personal Property	24,865,700	24,563,500
Qualified Property	<u>1,135,600</u>	<u>1,081,207</u>
Total	<u>\$ 658,166,600</u>	<u>\$ 528,189,224</u>

Assets, liabilities and net assets or equity

Cash and cash equivalents – For purposes of the statement of cash flows, the Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less.

CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Investments-Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year is referred to as “advances to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories - Items purchased for future use are recorded at cost as inventory and charged to expenditure accounts when requisitioned for use.

Capital assets – Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following useful lives.

Water and Sewer System	50 years
Roads	20 years
Building and Improvements	40 years
Vehicles	5 years
Office equipment	3, 5 or 7 years

Long-term obligations-In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Compensated Absences-Employees' unused sick and personal time is paid out in cash at the end of the year. Vacation time may be carried over. Any remaining vacation time at the end of the year is forfeited.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative data

Comparative data is not included in the Township's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to January 1, a proposed operating budget for the fiscal year commencing January 1 is presented. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget for the General Fund is legally enacted on a "total fund" basis through passage of a resolution in accordance with Public Act 621 of the State of Michigan.
4. Formal budgetary integration is employed as a management control device during the year for each budgeted fund. The budgets are adopted on a basis consistent with generally accepted accounting principles.
5. Budget appropriations lapse at year end except for approved contracts which are appropriated on a contract (grant) length basis. Encumbrances are not included as expenditures at year end. The amount of encumbrances outstanding at December 31, 2006 is unknown.
6. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund is presented on the budgetary basis to provide a comparison of actual results with the budget.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Excess of expenditures over appropriations in budgeted funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Township's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

During the year, the Township incurred expenditures that exceeded appropriations in the General Fund by the following amount:

	<u>Budget</u> <u>Appropriation</u>	<u>Actual</u> <u>Expenditure</u>	<u>Variance</u>
General Fund	\$ 5,462,790	\$ 5,520,637	\$ (57,847)

NOTE 3 – CONSTRUCTION CODE FEES

The Township oversees building construction, in accordance with the State Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The summary surplus or shortfall generated since January 2000 is as follows:

Reserved fund balance-beginning of year	\$210,542
Construction permit revenue	\$ 85,383
Building department expenditures	<u>133,783</u>
Current year revenue over (under) expenditures	<u>(48,400)</u>
Reserved fund balance-end of year	<u>\$162,142</u>

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of the United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered by the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Township has designated Chase Bank and Multi-Bank Securities, Inc. for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Township's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, defined as 5% or more of the Township's total investments. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Township's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs). At December 31, 2006, the credit quality ratings of debt securities (other than U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$191,791	AAA	Moody's

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned or the Township will not be able to recover collateral securities, if any, in the possession of an outside party. The government does not have a deposit policy for custodial credit risk. At December 31, 2006, the Township had \$575,320 of its deposit balances (certificates of deposit, checking and savings accounts) uninsured and uncollateralized. The Township believes that due to the dollar limits of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. This risk is minimized by the Township through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors. At December 31, 2006, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase Agreements	\$ 12,821,305	Counterparty

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Township is not authorized to invest in investments that would be subject to this type of risk.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 5 - CAPITAL ASSETS

Capital assets for the year ended December 31, 2006 were as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated-	<u>\$ 382,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,236</u>
Land				
Capital assets being depreciated:				
Buildings	4,103,208	200,225	-	4,303,433
Machinery and equipment	3,319,233	84,572	-	3,403,805
Infrastructure	<u>89,236</u>	<u>-</u>	<u>-</u>	<u>89,236</u>
Total capital assets being depreciated	<u>7,511,677</u>	<u>284,797</u>	<u>-</u>	<u>7,796,474</u>
Less accumulated depreciation:				
Buildings	(1,335,264)	(127,602)	-	(1,462,866)
Machinery and equipment	(2,776,676)	(270,394)	-	(3,047,070)
Infrastructure	<u>(8,924)</u>	<u>(4,462)</u>	<u>-</u>	<u>(13,386)</u>
Total accumulated depreciation	<u>(4,120,864)</u>	<u>(402,458)</u>	<u>-</u>	<u>(4,523,322)</u>
Total capital assets being depreciated, net	<u>3,390,813</u>	<u>(117,661)</u>	<u>-</u>	<u>3,273,152</u>
Governmental activities capital assets, net of depreciation	<u>\$ 3,773,049</u>	<u>\$(117,661)</u>	<u>\$ -</u>	<u>\$ 3,655,388</u>
Business-type activities				
Capital assets being depreciated:				
Water and sewer mains	\$17,484,668	\$ -	\$ -	\$17,484,668
Less accumulated depreciation:				
Water and sewer mains	<u>(9,717,134)</u>	<u>(349,693)</u>	<u>-</u>	<u>(10,066,827)</u>
Business-type activities capital assets, net of depreciation	<u>\$ 7,767,534</u>	<u>\$(349,693)</u>	<u>\$ -</u>	<u>\$ 7,417,841</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$102,711
Public safety	295,285
Public service	<u>4,462</u>
Total depreciation expense-governmental activities	<u>\$402,458</u>
Business-type activities:	
Water and sewer	<u>\$ 349,693</u>

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

	Due to Other Funds	Due from Other Funds
General Fund	\$ -	\$ 1,435,817
Sewer and Water Fund	33,362	35,234
Agency Fund	1,437,689	-
	<u>\$ 1,471,051</u>	<u>\$ 1,471,051</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 7 – TAP-IN FEES ADVANCED FROM DEVELOPERS

The Township has a long-term construction advance liability for monies advanced by developers for construction of water and sewer lines benefiting their properties. A liability in the amount of \$205,879 exists at December 31, 2006. The tap-in fee, which would normally be charged to the contractor for projects serviced, was applied to the advance. Also, 100% of tap-ins to other land owners in the developer's area will be applied against the amount advanced and paid back to the developer. Payments based on the current activity will be remitted to the developer annually. After ten years, the developer will not be entitled to any further use of their advance regardless of whether or not they have used to full amount. The developers' interests in the various tap-in contracts still open at December 31, 2006 will expire in November 2013. At the expiration date of the agreements, any remaining construction advance liability will be recorded as contributions revenue.

Beginning balance	\$ 238,929
Tap-ins collected and paid to developer in 2006	<u>(33,050)</u>
Ending balance	<u>\$ 205,879</u>

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 8 – RETIREMENT PLAN

Defined contribution plan

The Township has a contributory defined contribution pension plan administered by MFS financial Services, covering all full-time employees except police officers. Employees are eligible to participate immediately upon full-time status. Ten percent of base wages is contributed to the plan by the Township in accordance with plan document, with an additional five percent required contribution by the employee. Employees also have an option of contributing an additional ten percent. All contributions are immediately vested. Payroll costs of all employees and payroll costs of plan participants amounted to \$2,143,457 and \$484,688, respectively. The Township's policy is to fund pension costs accrued on an annual basis. Pension costs amounted to \$48,469 or 10% of covered payroll for the year. The pension, as established, does not recognize prior service costs as it is based exclusively on current compensation earned by participants.

Defined benefit plan

Plan description

The Township participates in the Michigan Municipal Employees Retirement System of Michigan (MMERS), an agent multiple-employer defined benefit pension that covers patrol officers and detectives. The MMERS provides retirement, disability and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Michigan Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding policy

The Township is required to contribute an amount equal to a percentage of covered payroll which is determined by negotiation with the Township's competitive bargaining unit and requires a contribution from the employees of five percent of wages for patrol officers and detectives.

Annual pension cost

For the year ended December 31, 2006, the Township's annual pension cost of \$120,371 for MMERS was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 20036 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, and (b) projected salary increases of 4.5% per year compounded annually, plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases. Both (a) and (b) include an inflation component of 3%-4%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfounded actuarial liability is being amortized on a closed basis over a period of 30 years, as of December 31, 2006, the date of the last actuarial valuation.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/06	\$ 120,371	100%	\$ -
12/31/05	\$ 108,608	100%	\$ -
12/31/04	\$ 96,899	100%	\$ -

Schedule of Funding Progress

	Actuarial	Actuarial	Unfunded			UAAL as a
Actuarial	Value of	Liability (AAL)	AAL	Funded	Covered	Percentage of
Valuation	Assets	-Entry Age	(UAAL)	Ratio	Payroll	Covered
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>((b-a)/c)</u>
12/31/06	\$1,441,040	\$ 2,683,468	\$1,242,428	53.7%	\$1,041,856	119.3%
12/31/05	\$1,163,394	\$ 2,345,525	\$1,182,131	49.6%	\$1,051,427	112.4%
12/31/04	\$ 930,324	\$ 1,996,469	\$1,066,145	46.6%	\$ 964,294	110.6%

NOTE 9 – POST-EMPLOYMENT BENEFITS

Employees covered by the Michigan Association of Police union contracts retiring under the provisions of the MERS retirement benefit plan shall be eligible for hospital/medical coverage at the Township's expense. To be eligible for the benefit, the employees must attain 25 years of Township service and not be eligible for hospital/medical insurance under any other insurance plan. The expenditures for the post-retirement health care benefits are funded on a pay-as-you-go basis. At December 31, 2006, there was one retired employee receiving benefits. The cost of the benefits provided during the year ended December 31, 2006 was \$2,192.

Upcoming reporting change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employees, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009. Management is currently assessing the impact of this new accounting standard on the Township's financial statements for future reporting periods.

**CHARTER TOWNSHIP OF MUNDY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2006, the Township carried commercial insurance to cover all risk of losses. The worker's compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Township. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

NOTE 11 – CONTINGENT LIABILITIES

The Township is engaged in routine litigation incidental to the conduct of its affairs. In the opinion of legal counsel and Township management, no legal proceedings are pending against the Township which are not covered by insurance or which would inhibit the Township's ability to perform its operations or materially affect its financial condition.

A judgment has been awarded against the Township, which is currently under appeal, for damages to be paid to a property developer in the amount of \$491,000, plus interest. The amount of the judgment and accrued interest to date of \$509,447 has been recorded in the December 31, 2006 financial statements.

NOTE 12 – NET ASSET RESTATEMENT

The balance of the net assets of governmental activities at December 31, 2005 has been restated to correct an error. The adjustment is related to the December 1, 2005 sanitation assessment that was recorded as revenue in 2005 but should have been deferred until 2006.

Net assets at December 31, 2005, as previously reported	\$8,669,085
Adjustment to defer special assessment revenue	<u>(553,891)</u>
Net assets at December 31, 2005, as restated	<u>\$8,115,194</u>

REQUIRED SUPPLEMENTAL INFORMATION

**CHARTER TOWNSHIP OF MUNDY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$	\$	\$ 2,382,117	\$
Licenses, permits and fees			654,340	
Intergovernmental revenue			900,837	
Charges for services			828,604	
Interest			263,596	
Fines and forfeitures			70,609	
Other revenues			158,602	
Total revenues	4,578,911	4,578,911	5,258,705	679,794
Expenditures				
General government:				
Township hall			1,199,827	
Tax account			356,229	
Other general government			124,689	
Public safety				
Building department			133,785	
Police department			2,061,018	
Fire department			545,812	
Public service			1,099,277	
Total expenditures	4,962,790	5,462,790	5,520,637	(57,847)
Revenues over (under) expenditures	(383,879)	(883,879)	(261,932)	621,947
Net change in fund balances	(383,879)	(883,879)	(261,932)	621,947
Fund balance-beginning of year	4,342,145	4,342,145	4,342,145	-
Fund balance-end of year	\$ 3,958,266	\$ 3,458,266	\$ 4,080,213	\$ 621,947

INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

**CHARTER TOWNSHIP OF MUNDY
AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Assets:				
Cash and cash equivalents	\$ <u>3,919,737</u>	\$ <u>18,492,945</u>	\$ <u>18,463,179</u>	\$ <u>3,949,503</u>
 Liabilities:				
Due to other governments	\$ 3,919,737	\$ 17,055,256	\$ 18,463,179	\$ 2,511,814
Due to other funds	<u>-</u>	<u>1,437,689</u>	<u>-</u>	<u>1,437,689</u>
 Total liabilities	\$ <u>3,919,737</u>	\$ <u>18,492,945</u>	\$ <u>18,463,179</u>	\$ <u>3,949,503</u>

INTERNAL CONTROL AND COMPLIANCE



Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

June 6, 2007

Members of the Board
Charter Township of Mundy
Genesee County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy as of and for the year ended December 31, 2006 which collectively comprise the Charter Township of Mundy's basic financial statements and have issued our report thereon dated June 6, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Charter Township of Mundy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of Mundy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter Township of Mundy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Charter Township of Mundy's financial statements that is more than inconsequential will not be prevented or detected by the Charter Township of Mundy's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.


As noted in more detail in a separate letter to the Township Board dated June 22, 2007, the Township's regular fund accounting procedures do not include procedures such as the booking of accrued payable and receivable balances, deferred revenues, as well as inter-fund balancing transactions. As a result, the accuracy of interim and preliminary year-end financial reporting has been compromised.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter Township of Mundy's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Charter Township of Mundy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the members of the board of The Charter Township of Mundy and should not be used by anyone other than these specified parties.


TAYLOR & MORGAN, P.C.
Certified Public Accountants



Certified Public Accountants

June 22, 2007

To the Board of Trustees of
Charter Township of Mundy

We have audited the basic financial statements of Charter Township of Mundy (the Township) for the year ended December 31, 2006 and have issued our report thereon dated June 6, 2007. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under Generally Accepted Audited Standards

As stated in our engagement letter dated March 19, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the plan's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and accordingly do not express such an opinion.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and do not provide assurance on the internal control over financial reporting.

Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted a matter involving the internal control over financial reporting and its operation that we consider to be a material weakness, as described below under "Other Items."

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The Township of Mundy are described in Note 1 to the financial statements. We noted no transactions entered into by The Township of Mundy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed the following audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Townships' financial reporting process.

1. Booking accrued wages payable
2. Booking receivable from State for Sept-Dec revenue sharing payments
3. Booking receivable for cable franchise fee
4. Booking receivable for 4th quarter impact fee
5. Booking accounts payable
6. Record bond deposit payable
7. Record adjustment to reflect correct treatment of deferred sanitation revenue
8. Book correct amount of tax fund liability to other funds and other governmental units
9. Book depreciation expense in water/sewer fund
10. Book receivable for water and sewer charges
11. Adjust sewer & water fund special assessment receivable to reconciled balance

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention of as the Township's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management or staff in performing our audit.

Other Items

Internal Controls – Material Weakness

The number of 'Significant Audit Adjustments' noted earlier in this letter is indicative of issues with internal control over financial reporting that we consider to be a material weakness. The Township's accounting procedures have been limited to the recording of transactions and bank reconciliations. Additional procedures, such as the booking of accruals for accounts receivable and payable (including reconciliation to subsidiary schedules), balancing inter-fund receivable and payable amounts, and deferred revenues, are not performed.

When these types of procedures are not performed on a regular basis, the accuracy of interim financial reporting is compromised and the budgetary process is likely to be rendered ineffective, as well as overall financial management. We understand the Township is reviewing its controls over accounting and financial reporting with the goal of rectifying the issues noted above.

Internal Controls –Other

During our review of accounting policies and internal controls, we noted the following items that may warrant a modification of current policy:

Bank statements – currently, the accountant receives the bank statements. We recommend the Treasurer receive the statements unopened from the bank and review them, along with the cancelled checks. This procedure provide an additional level of control over Township disbursements and transfers.

Capitalization policy/fixed assets - The Township does not have a capitalization policy governing the accounting treatment of fixed asset purchases. To help ensure the accurate recording of capital transactions, as well as subsequent depreciation charges, we recommend such a policy be established which include a dollar threshold for capital asset treatment.

In addition, the Township does not have a system in place to track its fixed assets, including purchase, recording depreciation expense, and disposal. To ensure control over fixed assets, as well as to help ensure accurate financial reporting, we recommend a system be implemented.

1099 Reporting – We noted a series of payments to an individual vendor for which no Internal Revenue Service 1099-Misc was issued at the end of the year. We recommend procedures be implemented to ensure compliance with IRS 1099 reporting requirements.

Tax Collection Fund

Reconciliation of tax roll - The tax collection fund in a governmental unit is a "trust and agency" fund – it does not have revenues and expenditures, or its own fund balance, but simply collects funds on behalf of other governmental units, and other Township funds, and then remits the collections to those units and funds.

The Township should account for all of the receipts and disbursements in the fund, and, as any cash balances are a liability payable to another unit or fund, be able to reconcile those balances to an associated liability account. At the end of the tax collection cycle, the cash balance in the tax collection account should be at or close to zero, as all the collections should be paid out.

The Township has not performed this reconciliation in 2006 and does not appear to have done so for many years. As a result, there was an unrecognized cash balance in the tax account as of 12/31/06 of approximately \$320,000. It appears this balance was generated over a period of time and includes interest income, interest and penalties charged for late payment, and possibly other items.

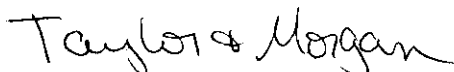
As part of our audit adjustments, we proposed a payout of these balances to clear this unreconciled balance. However, in the future, we recommend a detailed reconciliation be performed of the tax collections and payments each year, so that the tax collection fund operates as intended and does not accumulate any cash balances.

Timeliness of Disbursements - Disbursements from the tax collection fund to other local units of government (as well as to other Township funds) were not made on a timely basis. State statute requires townships to remit tax collections on a timely basis in accordance with a prescribed tax collection calendar. We recommend the Township implement procedures to ensure tax disbursements are paid out on a timely basis.

Delinquent Personal Property Taxes - While the delinquent real property tax roll is turned over to Genesee County each year, the Township retains the responsibility for collection of delinquent personal property taxes. Our audit disclosed that the Township has collected approximately \$41,000 of delinquent PPT for the 2004 to 2006 tax rolls. However, these funds have not been turned over to other local units of government and/or other Township funds.

Again, as the Township is responsible for timely payouts from the tax collection fund, these collections should be disbursed as soon as possible, and procedures should be implemented to ensure prompt disbursement of future personal property tax collections.

This information is intended solely for the use of the Board of Trustees of Charter Township of Mundy and its management and should not be used for any other purpose.


Taylor & Morgan, P.C., CPA's
Flint, MI